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MEMORANDUM FOR THE RECORD

SUBJECT: Meeting Between the DCI and the Director, Bureau of the Budget

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1. A meeting took place in a Bureau of the Budget conference room at 10:00 a.m., 9 July 1963. Present were: BOB - Messrs. Gordon, Staats, Hansen, Lewis, Pettibone, and Smith; CIA - Messrs. McCone, Carter, Bross, Clarke, and Mr. Gordon opened the meeting with a brief review of the economic situation with regard to the implications of the President's proposed tax revision. He predicted a budgetary deficit resulting therefrom in FY 1965 of \$13 billion to \$14 billion in expenditures but pointed out that within two years or so, this deficit is expected to be eliminated due to the beneficial effects of the tax cut on the economy. Until this rise takes place, however, Mr. Gordon stressed that every effort must be made to hold down the deficit by reducing the size of the Administration budget. If no tax reduction is legislated, a deficit of approximately \$3 billion is still anticipated.

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- 2 -

2. Expenditures of \$102 billion to \$104 billion would represent a 4% increase over expenditures in FY 1964. Most Agency preliminary estimates exceed this percentage by considerable margin and Mr. Gordon stressed the importance of vigorous measures to hold the expenditures to a minimum. The Director expressed his personal sympathy and appreciation of the problem facing the Administration and of the importance of measures to economize. Both the DCI and Mr. Gordon agreed that every effort should be made to reduce expenditures by the elimination of marginal or obsolescent activity.

3. There followed some general discussion of the difficulty of identifying Agency programs which can be categorized as either marginal or outmoded, the effectiveness or timeliness of Agency activities, in any case, being clearly a question of individual judgment.

was cited as an example of a project which has been subject to many reviews and the usefulness of which continues to be the subject of considerable debate.

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4. The DCI, citing the directive of January 16, 1962, introduced Gen. Carter as the general manager of the Agency, immediately responsible for the preparation of the Agency budget. Gen. Carter opened the discussion by saying that the Agency welcomed the comments

- 3 -

of the Bureau of the Budget and would give them very careful consideration in the formulation of the Agency's submission scheduled for September. He pointed out that the Bureau's statement on the CIA budget was misleading in suggesting that the figures submitted by the Agency of [] exceeded the level suggested by the Bureau 50X1 of the Budget by [] This statement by the Bureau of 50X1 the Budget apparently overlooked the fact that there had been agreement to exclude from the Agency's ceiling items for paramilitary and Communications activity which aggregate [] 50X1 The difference between the Bureau of the Budget high range and the Agency submission, accordingly, is [] 50X1

5. There followed some discussion of how paramilitary programs of the SWITCHBACK variety came to be included in the Agency budget. Both Mr. Lewis and Mr. Pettibone seemed to feel that NSAM 57 gives responsibility for this type of program to the Defense Department. It was recognized that, irrespective of the intention of NSAM 57, the Defense Department did not have the administrative (or apparently the legal) competence or authority to carry these programs out. It was pointed out by Mr. McCone that, whereas these programs have been included in the CIA Reserve for FY 1964, this was not practical in the FY 1965 budget where they

- 4 -

must appear as line items. The DCI stressed the fact that these programs had all been approved at the highest level of Government. Moreover, he pointed out that the Chairman of the House Appropriations Committee wanted foreseeable and specific programs of this type included in the Agency budget and excluded from the Reserve.

6. Mr. Gordon asked how the cost of these programs was established and an explanation of the character of the programs was provided. The DCI then explained in some detail the process of internal CIA review of programs and the procedures for policy review in the Special Group and by higher authority.

7. Mr. Gordon wanted to know generally whether a review by the Special Group of specific programs from the point of view of cost evaluation would be a good idea. The DCI expressed little enthusiasm, indicating that it would be better to have CIA do this. Mr. Gordon was worried that no impartial re-assessment of continuing programs takes place. The DCI pointed out that re-evaluation does, in fact, take place largely at the initiative of the Agency and that he himself had recommended cancellation of two programs within the last two weeks. He also pointed out that the Special Group does make a rather searching analysis of

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- 5 -

particular situations including costs and cited as an example,

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There was some discussion of the reprogramming process within the Agency and the Bureau of the Budget was assured that the Agency does undertake a reprogramming review before approaching the Bureau of the Budget for a release from the Reserve. There was some discussion of the criteria used in withdrawals from the Reserve and the DCI stated that it is our endeavor to avoid initiating programs involving releases from the Reserve that will develop the base of budget in ensuing years and that the Reserve should be used for unforeseen and unplanned contingencies.

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3. Turning to specific comments made in the Bureau of the Budget attachment to Mr. Lewis' letter of July 5, 1963, there was a general discussion of the SIGINT Program. Mr. Pettibone explained the reasons as to why incorporation of the Agency activities in this field (exclusive of close support) should be incorporated in the Consolidated Cryptologic Program. In the ensuing conversation, the DCI made a distinction between the USIB review of COMINT Collection requirements and the program analysis made by the CCP. The DCI agreed that a mechanism for tasking collection resources and evaluating individual collection facilities was highly desirable and referred to MISTIC by way of example.

- 6 -

9. Mr. Pettibone criticized the size of the staff supporting OSA activities but there was no concession that this criticism was valid.

10. In the field of Intelligence Production, Mr. Smith reviewed the proposals for retrenchment advanced by the Bureau of the Budget and there was some discussion of the scope and objectives of economic research, particularly in the Free World area. Mr. Hansen reported that MacGeorge Bundy had reviewed the scheduled NIE's and, as a result of this review, some of the NIE's had been changed from estimates to memoranda.

11. There was some discussion of the Communications Program

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12. In conclusion, Mr. Gordon drew the Director's attention to the graph showing the sharp increase in the CIA Budget. The Director responded that while he deplored growth of this character that the Agency programs involved difficult judgment areas and that the Agency is subject to extreme pressures to continue and to expand its activities. He reported that he had instructed Gen. Carter to initiate a searching review of Agency programs and make an attempt to reduce the budget. The Bureau

- 7 -

of the Budget will submit the backup data supporting their proposals for reduction and these will be taken into account in formulating the Agency submission in September.

13. In the limited time remaining, Mr. Gordon addressed himself to the problem of the Intelligence Community as a whole, calling the DCI's attention to the figures contained in the Bureau of the Budget memorandum on this subject.

14. The DCI pointed out that the included for low level (peripheral) reconnaissance should be eliminated from the Intelligence Community. He said that he talked to the Secretary of Defense on this matter that morning and that there was general agreement that this item should not be included as part of the National Intelligence Program. Mr. Gordon wanted to know who controls peripheral flights and who prescribes the requirements which these flights are designed to satisfy. It was explained that the tactical commands control the flights and not the Intelligence Community in Washington. Neither the DCI nor Gen. Carroll have any control over them nor was it possible to say whether, if they were not carried out, the Intelligence Community in Washington would order their institution. The DCI doubted that they would be required, stressing the fact that

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- 8 -

they are needed for local tactical purposes namely concerned with identifying order of battle and intercept capabilities against the eventuality of an attack.

15. It was agreed that, except for the item of low level reconnaissance, the rest of the activities included in the Bureau of the Budget schedule are part of the Intelligence Community.

16. Mr. Pettibone explained the charts used in the Bureau of the Budget memorandum, Page 3, represented the Bureau's best estimate of the Intelligence Community projects. The figures on page 7 are based on Agency submissions as far as CIA and State are concerned and on the financial figures on the five-year force structure estimates for Defense. He stated the Defense figures are believed to be substantially understated pointing out however that the Defense Department has "planning wedges" which would permit allocation of funds to the Intelligence programs from other sources in the Defense budget.

17. Mr. Pettibone referred specifically to the fact that the estimated cost of the NRO in FY 1964 is probably

given by Defense Department.

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- 9 -

18. The DCI indicated that the Secretary of Defense was probably not overly concerned with the allocation of resources as between Intelligence and other programs of Defense as his reviews and presentations necessarily involve factors other than those requiring a sharp delineation of intelligence activities as such.



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for JOHN A. BROSS
Comptroller

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